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HOW DIFFERENT ARE SALES TAX RATES ALONG GEORGIA'S BORDER?

A proposal has been advanced to replace the property tax for school purposes with an Education Sales Tax. It is expected that the Education Sales Tax rate would be about 3 percent. One issue associated with such a plan is the possible effect on cross-border shopping due to differential sales tax along Georgia's border. This Policy Brief compares the sales tax rates (state plus local) in the counties along Georgia's border (Map 1). For a discussion of issues associated with the proposed Education Sales Tax, see Matthews, Sjoquist and Smith (2004).

There are many studies (Mikesell 1970 and 1971, Mikesell and Zorn 1986, Fisher 1980, Fox 1986, Walsh and Jones 1988) that have found that differential sales tax rates along state borders affect shopping patterns. These studies generally find that a one percent higher sales tax rate is associated with per capita sales that are between 1 to 6 percent lower. For example, Walsh and Jones (1988) explored the effect on grocery purchases from a 3 percentage point phased-in reduction of West Virginia's sales tax rate. They find that grocery sales along the West Virginia border increased by about 5.9 percent for each percentage point reduction in the sales tax rate.

The combined state and local sales tax rate that apply to general purchases in each county that borders Georgia were determined. There are two complications. First, the sales tax rates in Alabama are not uniform throughout a county.

In Alabama, local governments can set rates that differ from the county rate; thus we consider both city and county rates. In the other border states, Tennessee, North Carolina, South Carolina, and Florida, and in Georgia the sales tax rate applies uniformly throughout the border county. A further complication is that in some states different rates apply to certain purchases, e.g., automobiles; we consider only the general sales tax rate.

Map 2 shows the current sales tax rate for each county in all counties that form the Georgia border. The following can be seen:

- ? The sales tax rate is 7 percent in 39 Georgia's border counties and 6 percent in the other 7 counties.
- ? All of Tennessee's border counties have a combined state and local sales tax rate of 9.5 percent compared to a 7 percent rate in all of Georgia's counties that border Tennessee.
- ? The sales tax rates are the same in North Carolina and Georgia border counties.

- ? With two exceptions, all of South Carolina's border counties have a smaller sales tax rate than do Georgia's border counties. In one exception the rates are the same, 6 percent, and in one case Georgia's rate is 6 compared to 7 percent in the South Carolina county.
- ? All of the border counties in Florida are either the same or higher than the county rates in Georgia. Four of the 7 Georgia border counties with a 6 percent rate are on the Florida border.
- ? With two exceptions, the sales tax rates for Alabama counties are lower than the rates in Georgia's border counties. In one case the rate in Alabama equals the rate in Georgia, while in the other case the rate in Alabama exceeds the rate in Georgia.

Map 3 shows the rates for all of the border counties if Georgia's state sales tax rate increases by 3 percentage points to 7 percent. If that happened, the sales tax rate for all of Georgia border counties would exceed the rate in the counties in border states.

Along the Alabama border there are several jurisdictions that have rates that differ from their home county rate, but these jurisdictions are generally small. The major exceptions are Phoenix City (across from Muscogee), which has a rate of 5 percent compared to a 7 percent rate in the rest of the county and Eufaula which has a rate of 7 percent compared to a county rate of 5 percent. The tax treatment of food for home consumption differs between Georgia and its border states. In Alabama and South Carolina, food for home consumption is subject to state and local sales taxes. In Tennessee, food for home consumption is taxed at the state and local level, but the state rate is 6 percent rather than the 7 percent that applies to other goods and services. In Georgia and North

Carolina, food for home consumption is taxed at the local level but is exempt from state sales taxes. Florida exempts food for home consumption for both local and state taxes. The Education Sales Tax proposal calls for food for home consumption to be subject to the Education Sales Tax. Map 6 shows the sales tax rates that apply to food for home consumption, where the tax rate for Georgia is the local rate plus an Education Sales Tax of 3 percent.

As noted above, with a 3 percent Education Sales Tax, Georgia's general sales tax rates would be higher than the rates in other states (Map 3). With a 3 percent Education Sales Tax, Georgia's tax on food for home consumption is higher than in most, but not all of its border counties (Map 4). In comparison with the general sales tax (Map 3), the differences in the sales tax rates on food for home consumption:

- ? are much larger along the Florida and North Carolina borders.
- ? are smaller along the Tennessee border.
- ? are much smaller along the Alabama and South Carolina borders, and for many counties there is no difference.

The implication is that other than along the Florida border, there is less incentive for Georgians to shop for food out of state than to shop for other taxable goods and services.

The extent to which an increase in Georgia's sales tax rate will effect border shopping depends on the ease of shopping in another state, the size of the population along the border, and the average income in the county.

Map 2 also shows the major road system in the counties, including the interstate highways. With the exception of those parts of the border formed by a river, i.e., the border with southern Alabama and with

South Carolina, cross border access between Georgia counties and those in other states is generally good.

Map 5 show the population in each of the border counties. Cross-border access is generally good in the major population center of Georgia such as Columbus and Augusta. With the exception of Chattanooga, and to a lesser extent Phoenix City, there are no significant population centers in other states near the Georgia border. Thus, the opportunity to do major shopping in other states is limited. However, shopping for things like groceries is likely feasible.

With the exception of Columbus¹ and Augusta², Georgia border counties are, in general, not very populated. The average population density for the border counties in the Columbus and Augusta area is 304 persons per square mile, while for the other border counties density is 96 persons per square mile.³ The density for the entire state is 148 people per square mile of land area. About 23 percent of Georgia's population lives in border counties.

As seen in Map 6, income per capita is, in general, low in Georgia's border counties relative to the state average, but about the same or a bit higher than in neighboring state border counties.

The data do not allow us to predict the effect on sales in Georgia from an increase in the sales tax rate by 3 percentage points. However, the increase would result in the sales tax rate in all of Georgia's border counties exceeding the rate in the border counties in the neighboring states. A substantial population lives in Georgia along its borders, and for much of the border, the ability to cross appears to be relatively easy. However, there are few major commercial centers in border counties of other states.

NOTES

¹The population for the three Georgia border counties in the Columbus

metropolitan area (Chattahoochee, Harris, and Muscogee) is 230,926, while the border county in Alabama (Russell) has a population of 48,986.

²The population for the three Georgia border counties in the Augusta metropolitan area (Columbia, McDuffie, and Richmond) is 317,099, while the two border counties in South Carolina (Aiken and Edgefield) have a combined population of 177,439.

³The population densities for the border counties in the other states are: 89 for Alabama, 314 for Florida, 166 for North Carolina, 135 for South Carolina, and 136 for Tennessee.

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ABOUT THE AUTHORS

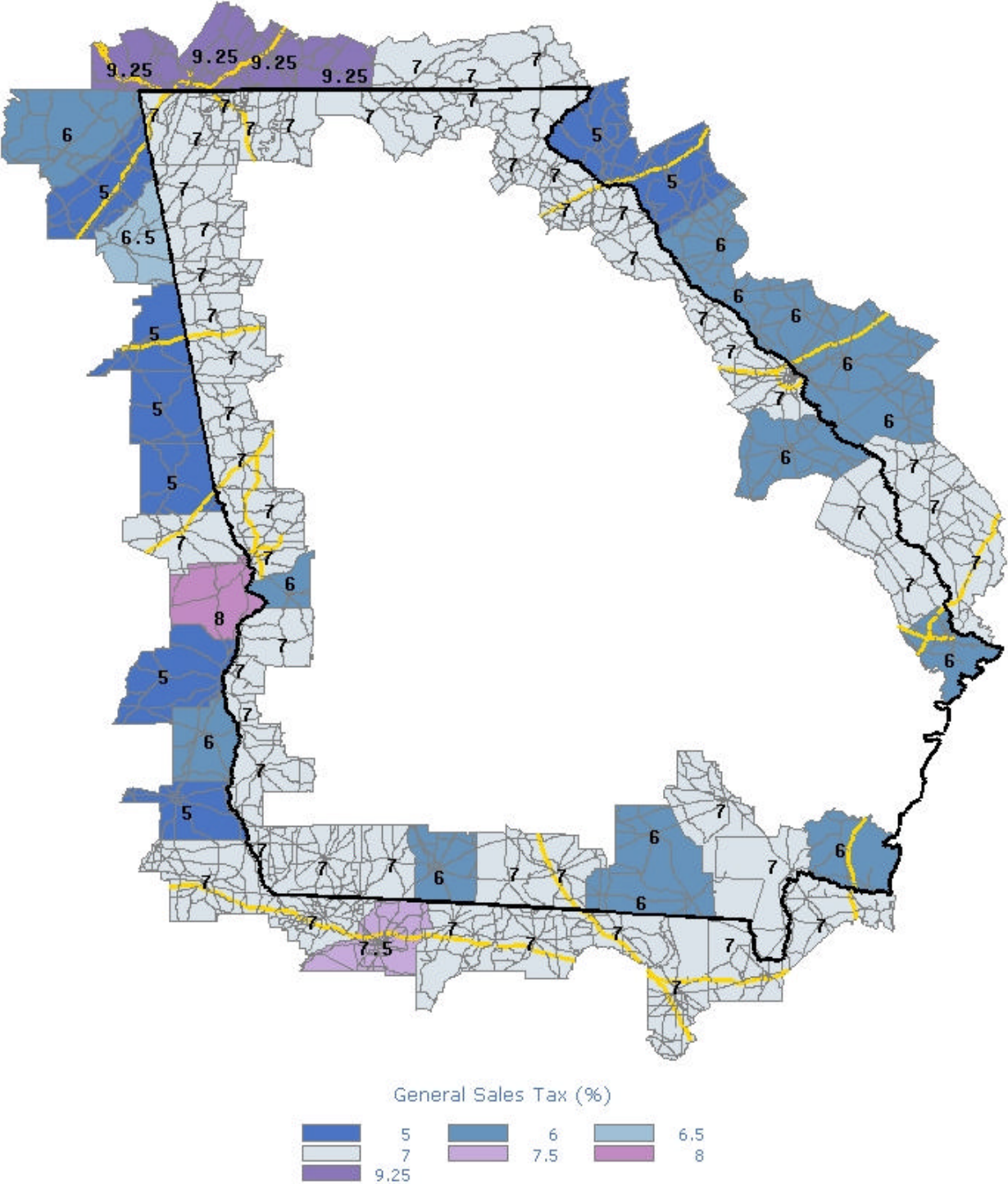
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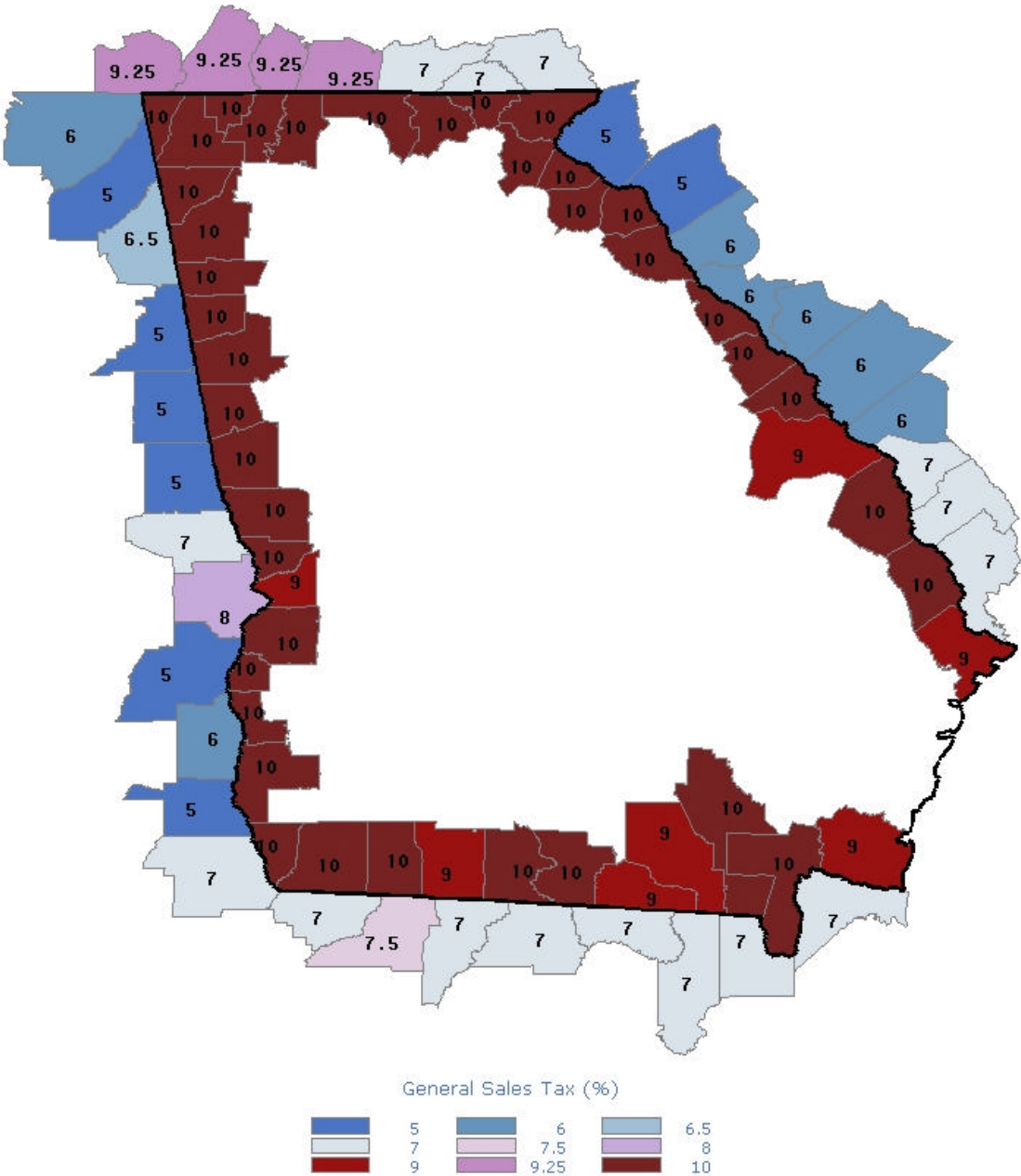
MAP 1: COUNTIES ON GEORGIA'S BORDER



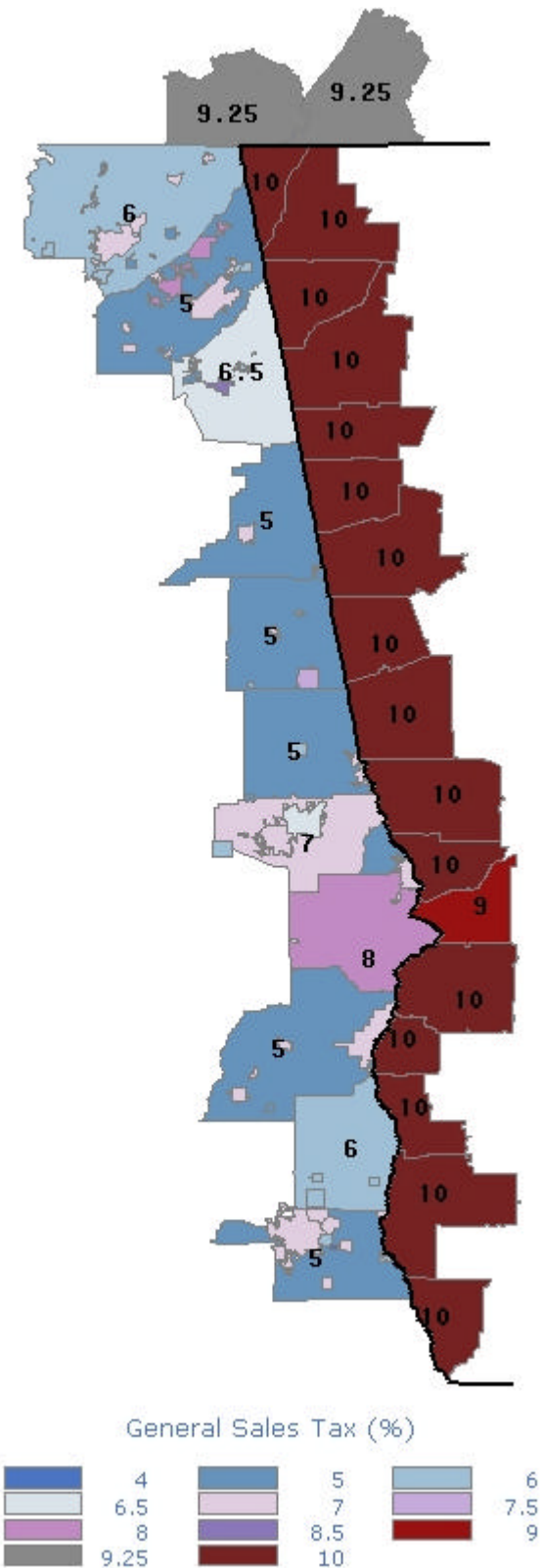
MAP 2: CURRENT SALES TAX RATES AND ROAD NETWORK IN BORDER COUNTIES



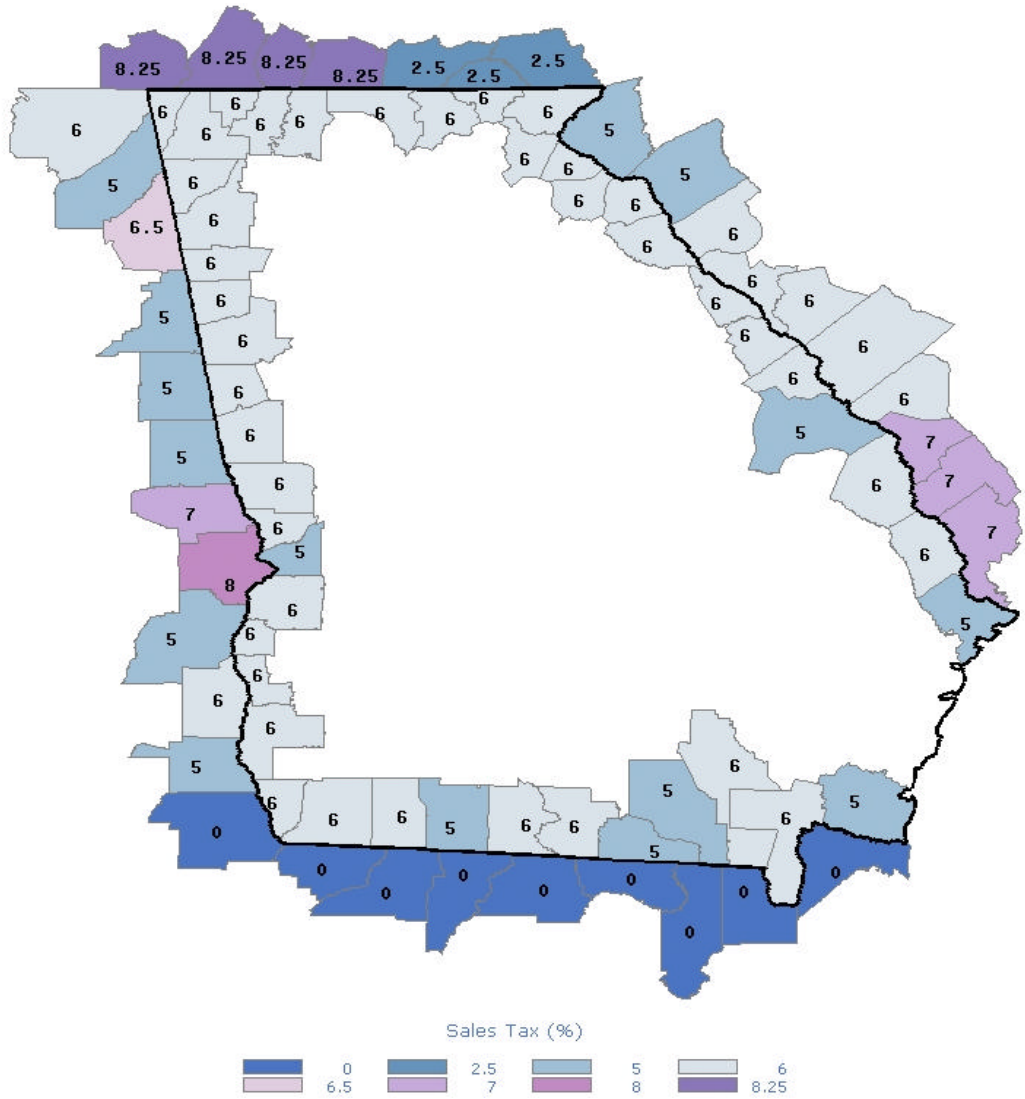
MAP 3: SALES TAX RATES IN BORDER COUNTIES (WITH GEORGIA STATE SALES TAX RATE AT 7%)



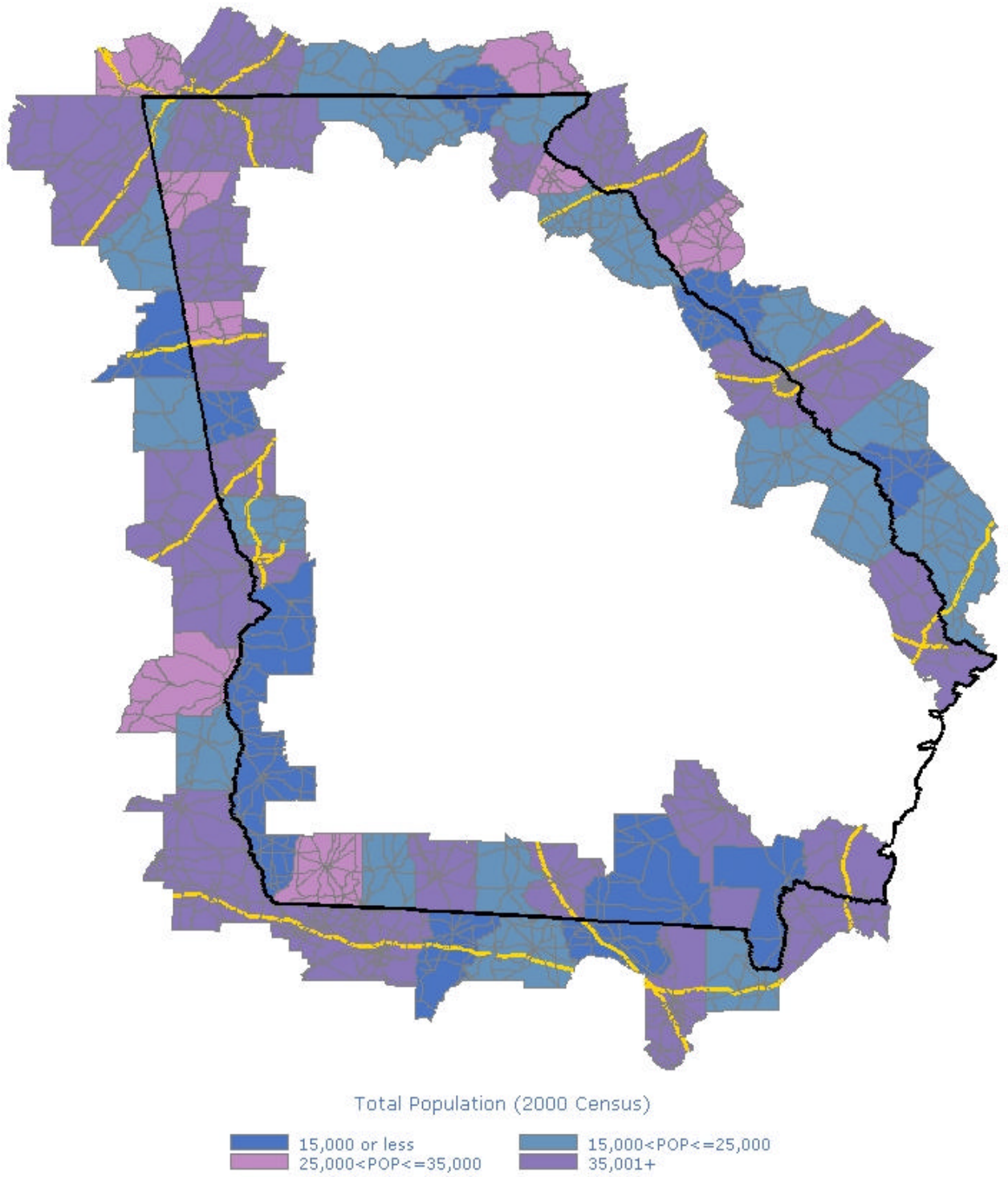
MAP 4: SALES TAX RATES IN BORDER COUNTIES AND PLACES IN ALABAMA (WITH GEORGIA STATE SALES TAX RATE AT 7%)



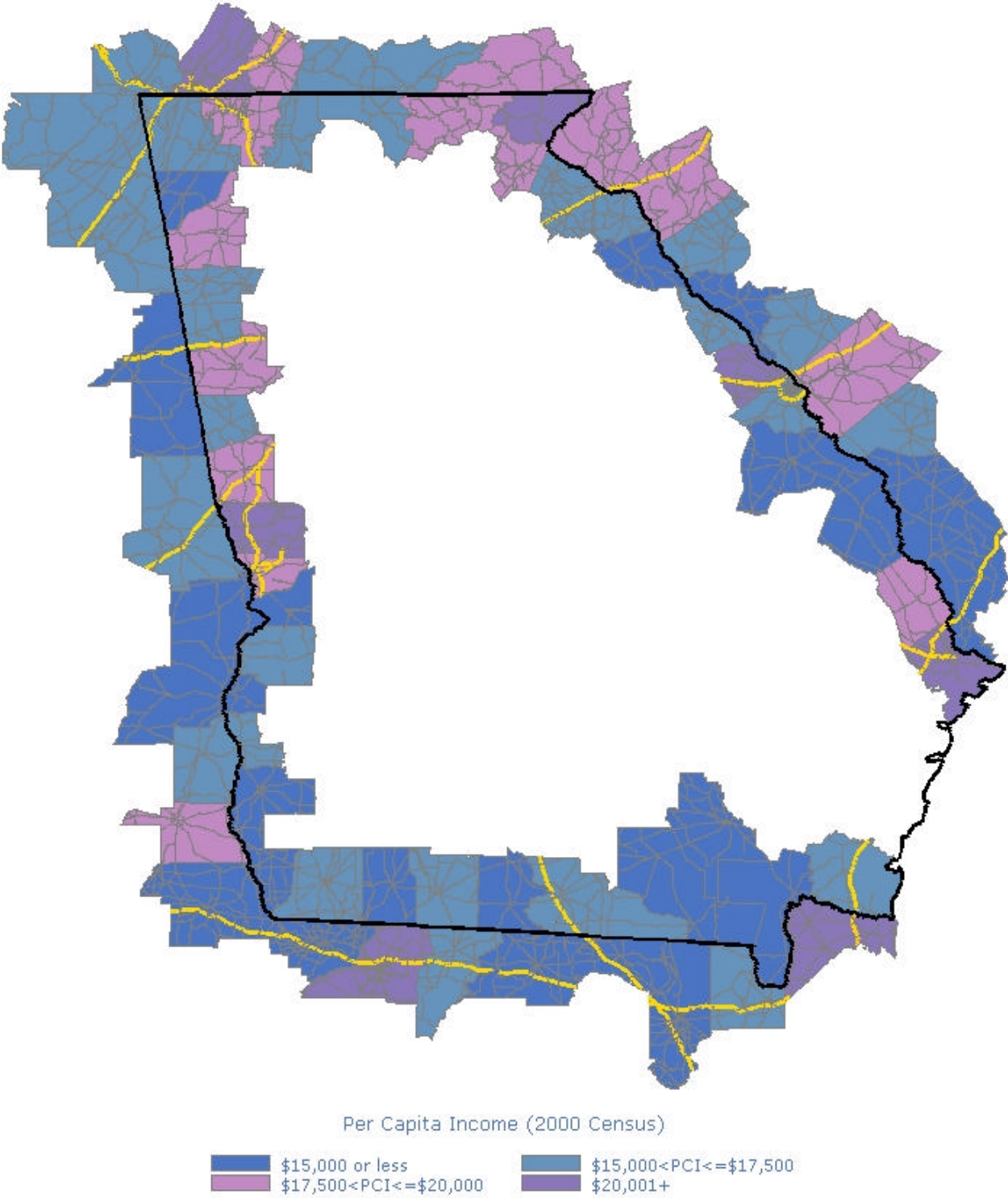
MAP 5. SALES TAX RATES ON FOOD FOR HOME CONSUMPTION IN GEORGIA AND BORDER COUNTIES (WITH EDUCATION SALES TAX IMPOSED)



MAP 6: POPULATION OF BORDER COUNTIES



MAP 7: PER CAPITA INCOME OF BORDER COUNTIES



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